UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

In re: The Financial Oversight and Management Board for Puerto Rico, as representative of The Puerto Rico Electric Power Authority, *et al.* Debtor.	PROMESA Title III No. 17 BK 04780-LTS

DECLARATION OF DEREK HASBROUCK IN SUPPORT OF
MOTION FOR RELIEF FROM THE AUTOMATIC STAY

I, Derek HasBrouck, hereby declare as follows under penalty of perjury pursuant to 28 U.S.C. § 1746:

1. I am a Member of PA's Management Group at PA Consulting Group, Inc. ("**PA**"), a global consulting firm with an Energy and Utilities Practice that specializes in advising public utilities and their investors on strategic, economic, and operational issues. My educational qualifications include a B.S. in Electrical Engineering from Rensselaer Polytechnic Institute and a Masters in Management from the J. L. Kellogg School of Management at Northwestern University. I began my 35 year utility industry career as a practicing engineer at Florida Power & Light Company. Since 1988, I have been a management consultant to the utility industry, providing industry leading performance and reliability benchmark services, operational improvement services, and commercial management advice to over 100 electric and gas utilities in the US and internationally. I created PA's ReliabilityOne™ program, the electric industry's independent electric reliability certification and awards program, identifying and recognizing the most reliable electric utilities across the U.S. annually since 1999. I have also served at the Chief Financial Officer of Vermont Electric Power, where I led a comprehensive

financial re-structuring to enable a $1 billion, decade long investment program in electric transmission system upgrades. And, I have led a series of engagements since 2009 with Hawaiian Electric Company, supporting their strategic and operational efforts to cost effectively, reliably transform their five independent island power systems.

2. Since October 2014, PA has been an advisor to the members of an ad hoc group of holders (the "**Ad Hoc Group**") of bonds sold by the Puerto Rico Electric Power Authority ("**PREPA**" or the "**Authority**") that hold over $3 billion in uninsured bonds – over 37% of the approximately $8.3 billion in total outstanding bond debt. I respectfully submit this declaration in support of the motion by the members of the Ad Hoc Group and various others (together, "**Movants**") to lift the automatic stay so that an action can be commenced against PREPA to seek the appointment of a receiver. This declaration describes various challenges facing PREPA due to years of mismanagement. It is based on documents and admissions by, among others: (i) PREPA and its key executives; (ii) PREPA's advisor, FTI Capital Advisors, LLC ("**FTI**"); (iii) the Puerto Rico Energy Commission (the "**Energy Commission**"), an independent government agency that oversees PREPA and must approve any of its rate changes; (iv) the Energy Commission's expert advisors Ariel I. Horowitz and Jeremy I. Fisher, of Synapse Energy Economics, Inc.; (v) PREPA's former restructuring consultant, AlixPartners; and (vi) its former Chief Restructuring Officer and AlixPartners employee, Lisa Donahue. In other words, the managerial deficiencies discussed here have been acknowledged by PREPA itself, and those closest to it.

Introduction:

3. In its April 28, 2017 Fiscal Plan (the "**Fiscal Plan**"), PREPA has expressed a desire to transform its operations to become a "utility of the future." Dkt. No. 2,

Exh. 1 at 67.[1] However, under the current management, it is still far from achieving even the minimum mandate of a utility: to provide safe and reliable service to its customers. PREPA lacks the management needed to effectively implement the operational improvements that it requires while exercising the fiscal discipline necessary to ensure reasonable rates and bondholder repayment.

4. PREPA has long had a reputation for inefficiency and poor management. As the Energy Commission has found, "PREPA's officials and consultants describe an inefficient bureaucracy with high absenteeism, overly staffed with non-value-added administrative personnel. There is a shortage of technical expertise and an unacceptable safety record." *See* Energy Commission's January 10, 2017 Final Order and Resolution (a copy of which is annexed as Exhibit A) (hereinafter the "Energy Commission Order") at 3. This reputation was attained as a result of a number of factors, including a senior management team composed largely of political appointees, a lack of transparency, absence of independent oversight, and a culture where inefficiency permeates all levels of staffing and operations. In a statement to the U.S. House Committee on Natural Resources from March 2017, a copy of which is annexed hereto as Exhibit B, the former chair of PREPA's governing board, Luis Benítez Hernandez, explained: "PREPA's problems did not arise overnight, or even in a few years — they developed and intensified over a period of decades. During this time, management and other strategic decisions, including rate setting, staffing and capital investment were too often based on political or electoral considerations rather than best practices or business imperatives. As a result of this dynamic, PREPA suffered from regular employee reassignments and had difficulty conducting rational long-term planning, which compounded existing challenges." Exh.

[1] All references to Dkt. No. are to the docket of the PREPA Title III proceeding, Case No. 17-4780.

B at 2 (hereinafter "Benítez Testimony"). The impact of political influence on the operations of PREPA was also acknowledged by PREPA in a document titled "PREPA's Transformation: A Path to Sustainability," a copy of which is annexed hereto as Exhibit C.

5. In the summer of 2014, PREPA faced a liquidity crisis, and PREPA and its creditors started urgent negotiations that culminated in a group of forbearance agreements between PREPA, the Government Development Bank (PREPA's fiscal advisor), and its major financial creditors, including certain members of the Ad Hoc Group, insurers of Bonds, and certain fuel line of credit lenders. The original agreement between PREPA, the Ad Hoc Group, and the insurers of bonds (the "Forbearance Agreement") is annexed as Exhibit A to the Spencer Declaration. Under the Forbearance Agreement, bondholders made various agreements, including to forbear from exercising certain remedies against PREPA and to amend the Trust Agreement to, among other things, temporarily suspend PREPA's requirement to refill money set aside in bondholder reserves to pay the Bondholders. *Id.* (A copy of the Trust Agreement before that amendment went into effect is annexed as Exhibit B to the Spencer Declaration.)

6. As part of its responsibilities under the Forbearance Agreement, PREPA agreed to appoint a Chief Restructuring Officer ("**CRO**") who would work to renegotiate PREPA's debt, address PREPA's operational problems, and try to restore PREPA's financial health. *See* Forbearance Agreement (Spencer Decl., Exh. A) at § 5(h)(x), Annex E; *see also* Exh. A at 14. On September 11, 2014, PREPA hired Lisa Donahue of AlixPartners as PREPA's CRO and retained AlixPartners as PREPA's outside restructuring consultant.[2] Donahue noted that the politicization of PREPA's board before the Forbearance Agreement made efficient capital

[2] *PREPA Appoints Lisa J. Donahue as Chief Restructuring Officer to Expedite Financial and Operational Improvements*, PR Newswire (Sept. 4, 2014), http://www.prnewswire.com/news-releases/prepa-appoints-lisa-j-donahue-as-chief-restructuring-officer-to-expedite-financial-and-operational-improvements-274019911.html.

planning and management "nearly impossible." (A copy of Donahue's testimony is annexed as Exhibit E.) Exh. E at 3.

7. Donahue and AlixPartners immediately set to work identifying and realizing savings for PREPA, correcting many of PREPA's administrative issues and putting together a comprehensive plan for PREPA's revitalization. As Donahue outlined in her testimony during the rate case proceedings, "PREPA and my team have been working for the better part of two years to develop the recovery and business plans, improve PREPA's operations, lower its operational costs, and address those challenges. We have made great progress, but we are far from done. Executing PREPA's transformation will require continued operational improvements, broad organizational change, and a new strategic direction. Our task is to transform PREPA for the benefit of the people and businesses of Puerto Rico and in doing so we must learn from PREPA's historical experiences that led to its state of crisis." (A copy of Donahue's testimony is annexed as Exhibit D). According to Benítez, the work done by PREPA under Donahue and AlixPartners resulted in $267 million in one-time savings and $212 million in recurring annual operating expense savings. Exh. B at 3.

8. The new Puerto Rico administration has done away with this professional team. Lisa Donahue and AlixPartners are no longer engaged by PREPA.[3] Governor Rosselló signed into law various pieces of legislation and replaced PREPA's independent, professional board (as described in Movant's Motion). .

[3] *See* Cynthia López Cabán, *The Departure of AlixPartners is Near*, El Nuevo Día (Feb. 2, 2017), https://www.elnuevodia.com/english/english/nota/thedepartureofalixpartnersisnear-2287053/; *see also Rosselló Pledges to Protect 'Most Vulnerable' in Pension Reform*, *Reorg Research* (Feb. 15, 2017), https://platform.reorg-research.com/print/article/30778.

9. Thus, PREPA again lacks independent, professional management, and this continues to be reflected in the utility's poor performance and inadequate levels of planning. PREPA still experiences:

- Poor system reliability driven by poor maintenance and operation procedures
- Poor generation availability driven by poor maintenance and operation procedures
- Poor levels of customer service
- Poor level of collections and high levels of energy theft
- Poor worker safety resulting in high accident rates and even deaths
- Insufficient budgeting and capital planning rigor
- Inefficient procurement process due to lack of standardization, transparency, information and competitiveness.

Many of these issues were outlined in a report by the Energy Commission's experts, Ariel I. Horowitz and Jeremy I. Fisher, a copy of which is annexed as Exhibit F (the "**Horowitz & Fisher Report**").

10. These challenges are caused in significant part by mismanagement, as discussed in additional detail below.

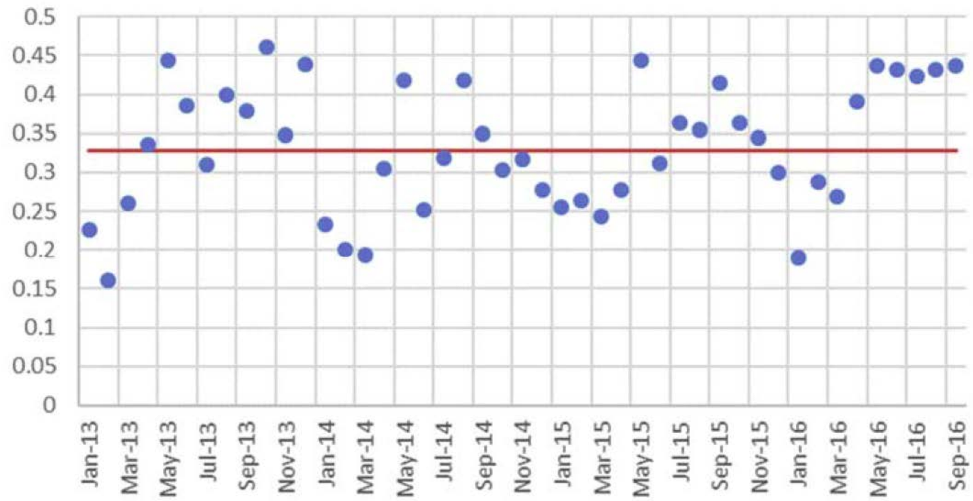
Electric System Reliability

11. Three key metrics are used to measure electric system reliability

- SAIFI (System Average Interruption Frequency Index), probability that a utility customer experiences an outage during a given reporting period,
- SAIDI (System Average Interruption Duration Index), the average number of minutes of interruption each utility customer experiences in a given reporting period, and
- CAIDI (Customer Average Interruption Duration Index), the average length of an interruption for those customers who had one.

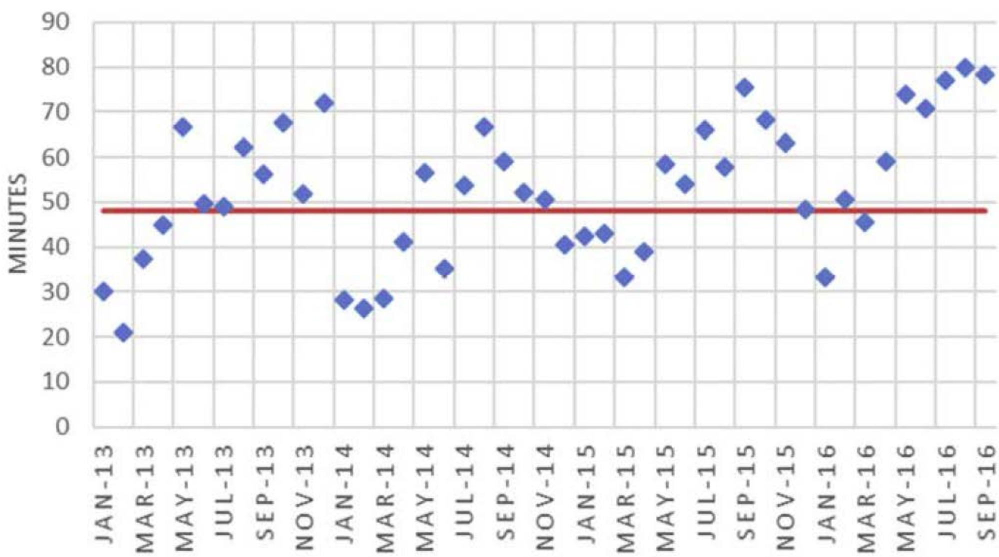
12. These and other metrics were reviewed in the Horowitz & Fisher report. The Horowitz & Fisher Report made disturbing findings concerning PREPA's reliability metrics, as seen in the charts below. Specifically, the utility has seen falling levels of reliability from Fiscal Year 2014 to Fiscal Year 2016. Exh. F at 34-36. Not only are customers experiencing more outages, but the outages also tend to last longer:

Figure 1: PREPA's monthly SAIFI (January 2013 through September 2016)



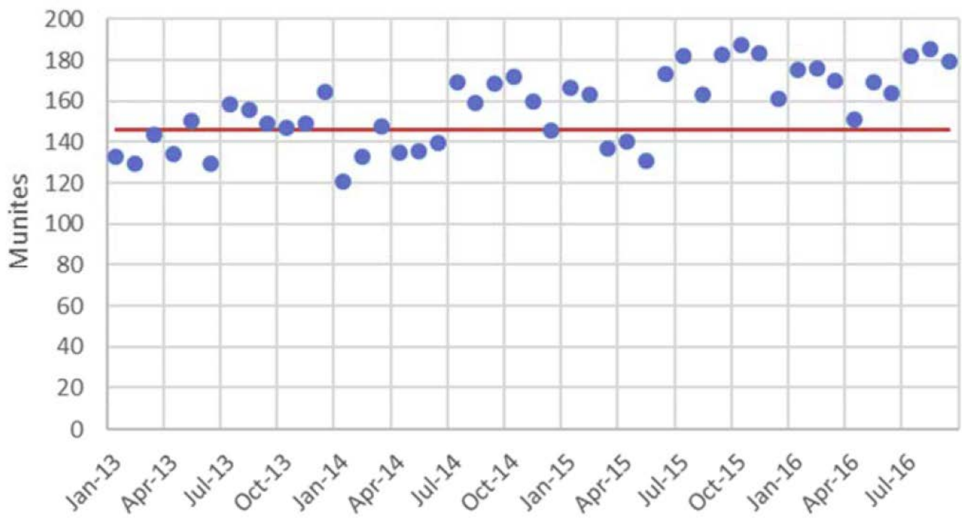
Id. at 35.

Figure 2: PREPA's monthly SAIDI (January 2013 through September 2016)



Id. at 36.

Figure 3: PREPA's monthly CAIDI (January 2013 through July 2016)



Id.

13. While the above charts show a worsening trend in reliability, an examination of the underlying interruption data by Horowitz & Fisher revealed that the situation might actually be significantly worse than the metrics suggest. Horowitz & Fisher calculated that the average PREPA customer experiences at least a five minute outage every month, which translates to a SAIFI of 11.61 per year – twelve times higher than the U.S. average. Exh. F at 35.

14. Data from October 2016 through April 2017 shows no meaningful improvement in these metrics. In fact, all but one month showed further worsening in the frequency and duration of service interruptions compared to the same month in the previous year:[4]

[4] All data comes from PREPA's Monthly Reports to the Governing Board. Those Monthly Reports are available at https://www2.aeepr.com/INVESTORS/FinancialInformation.aspx. The last publically available Monthly Report is from April, 2017.

Figure 4: Reliability Performance (October 2016 through April 2017)

	Oct-2016	Nov-2016	Dec-2016	Jan-2017	Feb-2017	Mar-2017	Apr-2017
SAIFI	0.40	0.43	0.37	0.32	0.23	0.35	0.40
% change (vs. same month previous year)	*8.7%*	*25.7%*	*24.2%*	*69.4%*	*(19.5)%*	*30.2%*	*1.8%*
SAIDI	81.42	74.88	74.48	53.25	37.21	49.34	62.50
% change (vs. same month previous year)	*19.5%*	*19.5%*	*54.2%*	*60.0%*	*(26.8)%*	*8.1%*	*4.9%*
CAIDI	203.55	172.93	202.39	164.9	159.8	140.9	155.47

15. While many outages are local or of relatively short duration, the island wide outage in September 2016 impacted all 1.5 million PREPA customers, lasted nearly 4 days, and no doubt cost the island millions of dollars.[5] PREPA's Fiscal Plan discussed the outage and stated that it was triggered by a switchyard fire/explosion, but revealed that it was also caused by the combination of technical/mechanical equipment faults, operational issues and limited availability of energy reserves. Dkt. No. 2, Exh. 1 at 14. Horowitz & Fisher explain how an island-wide outage was even possible: "The severe outages, deferred maintenance, and a lack of experienced staff have resulted in an increasingly brittle transmission system—as witnessed by the three-day outage just two months ago in September 2016." Exh F at 13. Not only was this outage the direct result of on-going poor operational practices and decisions, but the slow response highlighted PREPA's inability to handle a crisis of this magnitude.

16. Horowitz & Fisher provided some additional insight into the underlying causes of these reliability issues: "PREPA suffers from a severe lack of adequately trained staff and sound internal policies, protocols, and tools. PREPA's recordkeeping is archaic and unreliable. Its approaches to problem-solving are often improvised, with results that are disastrous as often as they are admirable. It has repeatedly shown itself to be penny-wise and

[5] Danica Coto, *Puerto Rico power utility restores service*, U.S. News (Sept. 24. 2016), https://www.usnews.com/news/world/articles/2016-09-24/cheers-groans-as-puerto-rico-struggles-with-power-outage.

pound-foolish. PREPA needs guidance, training, and talent to be able to take advantage of the opportunities for improvement afforded to it by this Commission." Exh. F at 18.

Generation Fleet Availability

17. In May of this year, PREPA's "Equivalent Availability Factor" for the electric system was 71%.[6] This means that on average PREPA's generating units were available to generate electricity, if called upon to do so, 71% of the time. In February, El Nuevo Día published an article entitled: "46% of PREPA's Capacity Is Out of Service." The article attributed this to "several power generation units that are out of order or operating with restrictions due to ruptures, maintenance, or environmental compliance issues."[7] The list of inoperative units included Aguirre 2, which had been offline since November 29, 2015 (almost 15 months at that point) due to a boiler failure. This was not an isolated incident – Horowitz & Fisher confirm that "[a] surprisingly large fraction of PREPA's fleet has had substantial maintenance problems through 2015 and 2016." Exh. F at 83.[8]

18. While PREPA generally blames its poor generation fleet performance on aging infrastructure and chronic underinvestment in maintenance, it acknowledges that poor management has also played a role. According to the Fiscal Plan, "inconsistent management ha[s] led PREPA's facilities and business practices to fall significantly behind industry standards . . . ." Dkt. No. 2. Exh. 1 at 10. Horowitz & Fisher also point out that some of the blame lies with PREPA's poor long-term planning and budgeting process; often PREPA's budgeting decisions are politically motivated, seem illogical and "may fail to provide sufficient

[6] AEE Junta de Gobierno, *PREPA Board Meeting of June 28, 2017*, YouTube (June 29, 2017) at 3:30, https://www.youtube.com/watch?v=CdLXK3kCJWE&feature=youtu.be.

[7] Gerardo E. Alvarado León, *46% of PREPA's Capacity Is Out of Service*, El Nuevo Día (Feb. 2, 2017), https://www.elnuevodia.com/english/english/nota/46ofprepascapacityisoutofservice-2287049/.

[8] *See also* Donahue U.S. Senate Testimony (annexed as Exhibit G) at 4.

capital for infrastructure that PREPA still relies on and provides service to the utility." Exh. F at 84. Horowitz & Fisher have also expressed doubts as to whether PREPA senior leadership and management are equipped to address the current situation: "It is not clear, however, that PREPA's top management understands the level of crisis or how to strategically invest, and there are indications that competency is mixed at the plant management level." *Id.* at 28.

Worker and Public Safety

19. In a June 2015 presentation, PREPA reported that it had hired DuPont, an outside consultant, to conduct a safety study, which determined that PREPA performed "below fundamental levels on each [safety] metric." Exh. C. at 8. The study concluded that PREPA's safety system and record were "dramatically below industry standards" and that the Total Recordable Incident Rate in 2012 was five times higher than industry average. Dkt. No. 2, Exh. 1 at 11. In fact, according to the Fiscal Plan, PREPA has experienced in excess of 14,000 accidents and 15 fatalities over a 10-year period. The study classified PREPA's safety system as "barely reactive," much less proactive. *Id.* at 11, 87.[9]

20. Donahue explained that these safety issues arose from "a lack of training, lack of compliance and a lack of appropriate protocols, and a physically deteriorated infrastructure." Exh. D at 24. In short, these issues arose from a lack of effective management coupled with a deteriorating system. When Governor Rosselló did not extend AlixPartners' contract beyond February 2017, AlixPartners prepared a "Hand-Over Strategy Report" which highlights various steps that are needed to continue to improve safety and create a safe working

[9] *See also* Exh. E at 12. The latest safety report, issued during the May 2017 PREPA Board Meeting, showed that PREPA saw a reduction in accidents compared to the same month in 2016. However, accident levels still remained high. There have been no deaths thus far in 2017, but two line workers have had serious accidents due to electrical contact – one in January and one in March. AEE Junta de Gobierno, *Board Meeting of May 31, 2017*, YouTube (May 31, 2017) at 3:45, https://www.youtube.com/watch?v=3-1IZaFy8wU&feature=youtu.be (hereinafter "PREPA May 2017 Board Meeting").

environment culture. (A copy of the Hand-Over Strategy Report (hereinafter the "Hand-Over Report") is annexed as Exhibit H.)

21. In my experience, the key ingredient in the successful implementation of such a safety program is the ongoing dedication of and 100% commitment from the utility's leadership and senior management.[10]

Providing a Reasonable Level of Customer Service

22. PREPA has historically demonstrated poor levels of customer service. Lisa Donahue attributed this poor performance to "[a] disorganized and ineffective customer service infrastructure." Exh. D at 23. AlixPartners worked with PREPA to implement a number of operational changes that improved customer service levels; as they themselves point out in the Hand-Over Report, "[t]his program is actually in its launching phase, but its successful implementation is critical to PREPA". Exh. H at 19. In February 2017, the Hand-Over Report noted that call center average wait times had been reduced from 22 to 12 minutes. Exh. H at 20. However, response times have increased again, and in May 2017, the average caller waited 28 minutes to talk to a customer service representative. *See* PREPA May 2017 Board Meeting at 32:10. In addition, service complaints have increased from 2.50 per thousand customers in February 2016 to 3.04 complaints per thousand customers in February 2017.[11] Sustained customer service improvements require significant expertise, commitment and resources. In

[10] DuPont, PREPA's outside safety expert, has stated: "But, like anything worthy of achievement, sustainable risk reduction does not occur without dedication and determination. To be successful, the effort needs to be effectively structured, designed and empowered. Leadership must recognize and value the importance of prevention, and dedicate proper resources and investment accordingly. Yet, we all know that simply providing resources and funds to address strategic goals, no matter how important, leads to mixed results." *Are you really reducing your highest risk exposure?*, DuPont Sustainable Solutions (2015), http://www.dupont.com/content/dam/dupont/products-and-services/consulting-services-and-process-technologies/consulting-services-and-process-technologies-landing/documents/DuPont-Risk-Management-and-Fatality-Prevention_en-US_2015.pdf.

[11] *Monthly Report to the Governing Board, February 2017*, at 2, Puerto Rico Elec. Power Auth, (March 28, 2017), https://www2.aeepr.com/INVESTORS/DOCS/Financial%20Information/Monthly%20Reports/2017/February%202017.pdf.

order to successfully transform a customer services organization, it is incumbent upon management to set the appropriate tone at the top and provide the strategic direction to guide future investments and operational decisions.

Collections and Energy Theft

23. PREPA has historically had significant issues with collections across its customer base and notably with its government customers, as reported by its own advisor, FTI, in an accounts receivable report (a copy of which is annexed as Exhibit I) (hereainfter the "**FTI Report"**).

24. In November 2014, FTI reported over $1.7 billion in accounts receivable. Exh. I at 9. As documented in the Hand-Over Report, AlixPartners worked with PREPA to improve accounts receivable and collections processes and not only "[c]ollected 120% of amounts invoiced to Gov[ernment] customers over the last 12 months. Past due balances have improved by $70 [million]," and AlixPartners "[s]treamlined and enforced service suspension program[s]" and special programs, "increasing cash collections by [approximately] $65 [million]." Exh. H at 12. While PREPA has made significant progress, continued efforts are necessary to maintain and further improve upon these results. In addition to effective collections processes, non-politicalized leadership is one of the factors needed to manage government collections, and will be key to maintaining the momentum established under AlixPartners.

25. A second important component to managing collections is addressing PREPA's non-technical energy losses (theft). PREPA's July 2015 Integrated Resource Plan estimated that non-technical losses were 5.8% of the total generation, a number well above industry average in the U.S.[12] Under AlixPartners, this number was reduced to 4.9% in

[12] *See* Integrated Resource Plan, July 2015, Addendum I at 1-1, https://www2.aeepr.com/Documentos/Ley57/PREPA%20IRP%20Addendum%20I%20–

December 2016 – a significant improvement but still high. Exh. H at 23. Managing and reducing energy theft is another area of operations that requires not only a skilled manager, but also the support of senior management.

Insufficient Budgeting and Capital Planning Rigor

26. PREPA began a rate case proceeding before the Energy Commission in May 2016, to raise its base rates for the first time since 1989. Exh. A at 13, 190. In the course of that proceeding, the Energy Commission and other expert witnesses frequently commented on the lack of reliable data and information provided by PREPA. In particular, the Energy Commission and its experts found that forecasted budgets were put together almost arbitrarily and little justification was provided for the necessity or reasonableness of proposed expenditures. The Energy Commission stated: "Procedures for budgeting and spending do not provide sufficient information on individual project plans and completion. On major capital projects, PREPA was often unable to provide basic explanations, work-plans, or other due diligence documentation." Exh. A at 3. Horowitz & Fisher similarly reported that "PREPA's record keeping is sub par. Across several areas, PREPA was unable to provide the basis or justification for budget items or spending. For example, we asked that PREPA identify which capital projects had work orders or contracts for engineering, procurement, and construction (EPC). PREPA denied the request in full, stating that their records were not sufficient to provide such justifications." Exh. F at 15.

27. In addition to insufficiently budgeting for costs, PREPA has also insufficiently constructed rates to cover debt service and expenses. PREPA's rates would need

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%20Draft%20for%20PREC%20review%20–%20Losses%20Consideration.pdf; *see also* Direct Panel Testimony of Sonia Miranda Vega, Antonio Perez Sales, and Virgilio Sosa, In re: Puerto Rico Electric Power Authority Rate Review, No. CEPR-AP-2015-0001 (May. 26, 2016), http://energia.pr.gov/wp-content/uploads/2016/07/PREPA-Ex.-3.0-Miranda-Sales-Sosa-Signed.pdf, at 24 (hereinafter "Miranda, Sales & Sosa Testimony").

to increase by approximately 3.5 cents per kilowatt hour to pay PREPA's debt service in full.[13] For comparison, PREPA's all-in electricity charge in April 2017 was 20.1 cents per kilowatt hour.[14] The Energy Commission's expert estimated that the current charge for PREPA's debt service is only approximately 1.9 cents.[15] Yet PREPA's current budget projects a 30% decrease in operating revenues alone during the next fiscal year; the budget shows revenues from operations declining from $4.02 billion in 2017 to $2.8 billion in 2018. *See* PREPA's 2018 Budget, attached as Exhibit J1 (certified English translation). An original copy of the budget in Spanish is attached as Exhibit J2.

Inefficient Procurement Process

28. In a statement to Puerto Rico's Energy Affairs and Water Resources Commission,[16] Lisa Donahue, PREPA's former CRO, described PREPA's procurement challenges as follows: "Procurement practices focus on a large number of small vendors, with payments to over 14,000 entities in fiscal year 2014. A lack of product standardization across PREPA's organization leads to vendor management issues, delays and high costs." Exh. L at 5-6. With regards to fuel procurement, Miranda, Sales and Sosa testified that "limited information sharing between areas combined with poor forecasting led to unnecessary build-up of fuel inventory. Fuel inventory controls and measurements were not in line with industry standards. In addition, the fuel procurement process was not strategic and was not appropriate for PREPA's

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[13] Expert Report of Stephen G. Hill, In re: Puerto Rico Electric Power Authority Rate Review, No. CEPR-AP-2015-0001 (Nov. 2, 2016), http://energia.pr.gov/wp-content/uploads/2016/11/Hill-Report-Final-11-21.pdf, (hereinafter "Hill Report") at 24-27.

[14] *Monthly Report, April 2017*, Puerto Rico Electric Power Authority at 5 (May 31, 2017), https://www2.aeepr.com/INVESTORS/DOCS/Financial%20Information/Monthly%20Reports/2017/April%202017.pdf.

[15] Hill Report, at 24-27.

[16] A certified English translation of the portions of the Spanish portions of the testimony is annexed as Exhibit K1. An original copy of Donahue's testimony is annexed as Exhibit K2.

financial situation."[17] In short, the procurement process was, and to a large extent still is, poorly managed and inefficient due to lack of standardization, transparency, information and competitiveness. This situation could be remedied through the deployment of streamlined protocols and processes, enforced through effective management and strong top-down governance.[18]

Conclusion – The Importance of Strong Leadership in Achieving & Preserving Reoccurring Benefits

29. Under the stewardship of AlixPartners and the guidance of the Energy Commission, PREPA commenced a gradual operational transformation. However, PREPA is far from done. AlixPartners has estimated that PREPA could realize another $100M in one-time savings if it implements the various reforms in the Hand-Over Report. Exh. D at 27.

30. In order to ensure that PREPA strives to improve in a strategically sound, cost-effective and fiscally responsible manner, it is critical to have strong and unbiased professional leadership, supported by a qualified management team. Not only has PREPA seen significant turnover in senior leadership this year, but it is also at risk of losing key managers. AlixPartners has said that there are over 1,000 employees eligible for retirement and many of them are in critical positions. Exh. H at 46. As an example, fuel expenses represent over 40% of PREPA's operating expenses and AlixPartners' proposed improvements would result in estimated fuel expense savings of over $110M (one-time and on-going); however, the primary individual responsible for securing these savings will retire at the end of 2017.

31. I reserve the right to amend and supplement the testimony set forth herein as necessary.

[17] Miranda, Sales & Sosa Testimony, at 17.

[18] *Id.* at 29-30.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Executed: New York, New York
July 18, 2017

s/ Derek HasBrouck
Derek HasBrouck